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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS  
UNEMPLOYMENT INSURANCE AGENCY  
STEVE ARWOOD  
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Dear Employer:

On December 19, 2011, Public Acts 267, 268 and 269 of 2011, were signed into law. The legislation made several substantive reforms to the Michigan Employment Security Act (MES Act), the State's unemployment insurance law. The legislation also authorized the State to issue bonds, backed by an employer obligation assessment, to resolve the insolvency of the Unemployment Insurance Trust Fund (UTF). This letter is an explanation on how these reforms will affect your tax rates in 2012 and moving forward.

Since 2002, Michigan's Unemployment Insurance System has been structurally unsustainable. Benefits paid from the system have outpaced revenue coming in. Beginning in 2007, Michigan has been forced to borrow interest-bearing debt from the Federal government to pay regular state unemployment benefits. At the end of 2011, that debt approached \$3.267 billion. The Solvency Tax (used to pay interest on federal debt) could not raise the interest required to service this debt, leaving nearly \$200 million unfunded and a risk to the state general fund. As the unemployment system is 100% employer funded, future repayment on the debt was through steadily increasing FUTA taxes as required by federal law. Repayment through FUTA penalty only addressed the debt and not the longer-term solvency of the system.

Recognizing that the situation was neither good for today or tomorrow, Public Acts 267, 268, and 269 of 2011, addressed the immediate need for debt retirement while tackling the broader solvency issue to avoid this problem in the future. On December 28, 2011, the State of Michigan issued \$3.323 billion in revenue bonds and retired the debt and accrued interest.

By refinancing the federal debt in calendar year 2011, the FUTA credit reduction (penalty) will be reset to zero beginning in 2012. The FUTA credit reduction of 0.9% will be in effect for tax- year 2011, due on January 31, 2012, as Michigan failed to pay its debt in full by November 10, 2011.

The following is an explanation of your tax rate under the new legislation:

**Taxable Wage Base (TWB)**

Effective in 2012, the TWB is increased from \$9,000 to \$9,500 and will remain at that level until the UTF reaches a positive balance of \$2.5 billion and then, by law, will be reduced to \$9,000 if the UTF can remain at a \$2.5 billion balance (net of benefits paid) for 2 consecutive calendar quarters.

### **Non-Chargeable Benefit Component (NBC)**

There are no changes to the calculation of the NBC.

### **Account Building Component (ABC)**

There are no changes to the calculation of the ABC.

### **Chargeable Benefit Component (CBC)**

Effective in 2012, the number of years of benefit charges and taxable payroll used in calculating the CBC (known as an employer's "experience") will be reduced. Previously, your "experience" for a 60-month (5-year) period was used in the calculation. In 2012, all employers' CBC will be calculated using 48 months (4 years) of their "experience;" in 2013 and thereafter, all employers' tax rates will be calculated using 36 months (3 years) of their "experience."

### **Solvency Tax**

The Solvency Tax will not be levied in calendar year 2012. With the federal debt repaid, Michigan is now qualified to borrow on an interest-free basis.

### **Obligation Assessment (OA)**

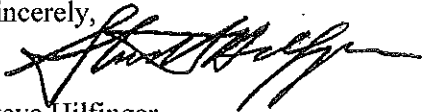
The obligation assessment (OA) will be applied on all contributing employers until the bonds are repaid. The bonds are scheduled for a 10-year repayment. The OA is structured to incorporate your experience rate and a base assessment of \$42 per employee for 2012, and a currently estimated \$63 for 2013 and beyond. The calculation of the OA takes into consideration your current tax rate, the OA ratio, a base assessment, and the taxable wage base. The OA ratio is computed by dividing the yearly amount required to retire the bonds by the estimated amount of revenue collected in 2012. This number will be set by the State Treasurer after consulting with the Director of the Department of Licensing and Regulatory Affairs. Please see the enclosure for a full explanation of the OA.

The obligation assessment will be a line item on *Form ULA 1771, Tax Rate Determination for Calendar Year 2012*. The OA will be determined annually and included on your annual Tax Rate Determination.

For complete details on all of the MES Act reforms, please go to <http://michigan.gov/uia> and click on the "Employer" link on the left. During the course of 2012, the Agency will conduct several Employer Seminars around the state. For a listing of dates and locations please refer to the same website listed above. For further assistance please utilize the services of the Office of Employer Ombudsman at 1-855-484-2636 (4-UIAOEO) or by email at: [OEO@michigan.gov](mailto:OEO@michigan.gov).

Thank you for doing business in our great State.

Sincerely,



Steve Hilfinger  
Director,  
Department of Licensing and  
Regulatory Affairs



Steve Arwood  
Director,  
Michigan Unemployment Insurance  
Agency